



Aggiornamento Coronavirus Impatto sulla Valutazione delle Partecipazioni al 30 Giugno, 2020

6 Luglio 2020

DUFF & PHELPS



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AGENDA



1. **Introduzione** – Enrico Rovere
2. **Impacts of COVID-19 on portfolio valuations** – Ryan McNelley
3. **Q&A**

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Introduzione

Enrico Rovere

Managing Director, Business Valuation, Italia





Duff & Phelps è la società di consulenza che opera a livello globale all'insegna del «protect, restore and maximize value» nell'ambito della valutazione, corporate finance, investigation, controversie, sicurezza informatica, compliance, aggiornamenti normativi ed altre attività relative alla governance. Duff & Phelps lavora con clienti di diversi settori, mitigando i rischi per gli asset, le operations e le persone.

~4,000
COLLABORATORI
A LIVELLO GLOBALE

OLTRE
19,000
PROGETTI NEL 2019

13,500
CLIENTI INCLUSO CIRCA IL
47% DELLE SOCIETÀ
S&P 500

AMERICA

Circa **2,000**
COLLABORATORI

EUROPA E
MEDIO ORIENTE

oltre **1100**
COLLABORATORI

ASIA-PACIFICO

oltre **700**
COLLABORATORI

UNA SOCIETÀ GLOBALE



PRESENTE IN 25 PAESI NEL MONDO

AMERICA

Addison	Libertyville	St. Louis
Atlanta	Los Angeles	San Francisco
Austin	Mexico City	São Paulo
Bogota	Miami	Seattle
Boston	Milwaukee	Secaucus
Buenos Aires	Minneapolis	Silicon Valley
Cayman Islands	Morristown	Toronto
Chicago	Nashville	Washington, D.C.
Dallas	New York	Westlake
Denver	Philadelphia	
Houston	Reston	

EUROPA E MEDIO ORIENTE

Abu Dhabi	Dublin	Moscow
Agrate Brianza	Frankfurt	Munich
Amsterdam	Hamburg	Padua
Barcelona	Lisbon	Paris
Bari	London	Pesaro
Berlin	Longford	Riyadh
Bilbao	Luxembourg	Rome
Birmingham	Madrid	Turin
Channel Islands	Manchester	Warsaw
Dubai	Milan	Zurich

ASIA-PACIFICO

Bangalore	New Delhi
Beijing	Shanghai
Guangzhou	Shenzhen
Hanoi	Singapore
Hong Kong	Sydney
Hyderabad	Taipei
Melbourne	Tokyo
Mumbai	

ALTERNATIVE INVESTMENT FUND

Portfolio Valuation

*Duff & Phelps assists clients with **design and implementation of best-in-class valuation policies and processes**, including on-going review of valuation procedures and conclusions to ensure best practices.*

Market Leader

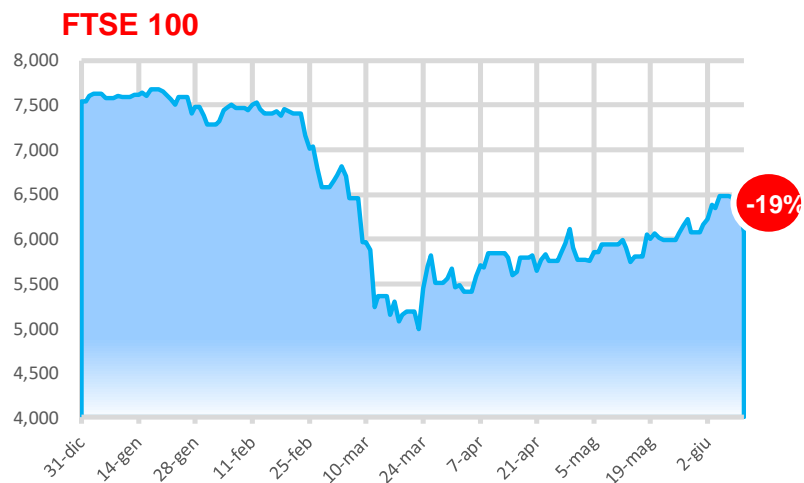
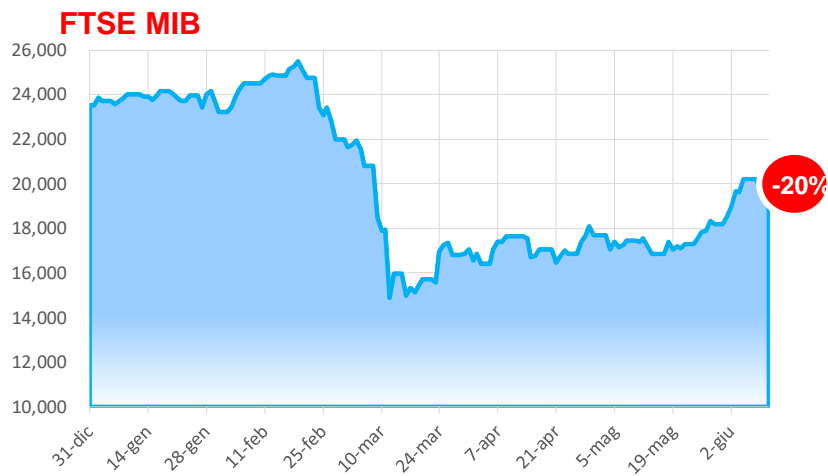
- » Our client base consists of **450 alternative asset** fund managers and investors in the **U.S. and globally**
- » We perform in-depth valuation analyses of all asset types for clients across the spectrum of banks, hedge funds and private equity firms globally:
 - **70% of the top 25** largest Hedge Funds
 - **70% of the top 25** largest Private Equity Funds
 - **50% of the top 25** largest publicly traded Hedge Fund platforms (business development companies or “BDCs”)
 - Our client base includes **20 BDCs**
 - **Private debt funds** and **mid-market private equity funds** are the fastest growing segment of our client base
- » We review or value over **15,000 investment positions** on a quarterly basis, including derivatives and structured products
- » We have **12 full-time Managing Directors** and draw from D&P’s pool of over 1,000 valuation professionals with wide ranging sector and asset class expertise across the spectrum

Thought Leader

- » We are at the forefront of the industry’s leading committees on valuation processes, guidelines, and regulations:
 - **IPEV** – Board Member
 - **ILPA** – Special Advisor
 - **AICPA PE/VC Valuation Guide Task Force** – Member
 - **FASB Valuation Resource Group** – Member
 - **Managed Funds Association** – Sustaining Member
- » Leadership on drafting IPEV and PEIGG private equity valuation guidelines
- » Development of Duff & Phelps Created Value Attribution Framework.

Duff & Phelps’ Portfolio Valuation practice enables alternative investment managers to enhance their valuation process with the independence and objectivity that investors require.

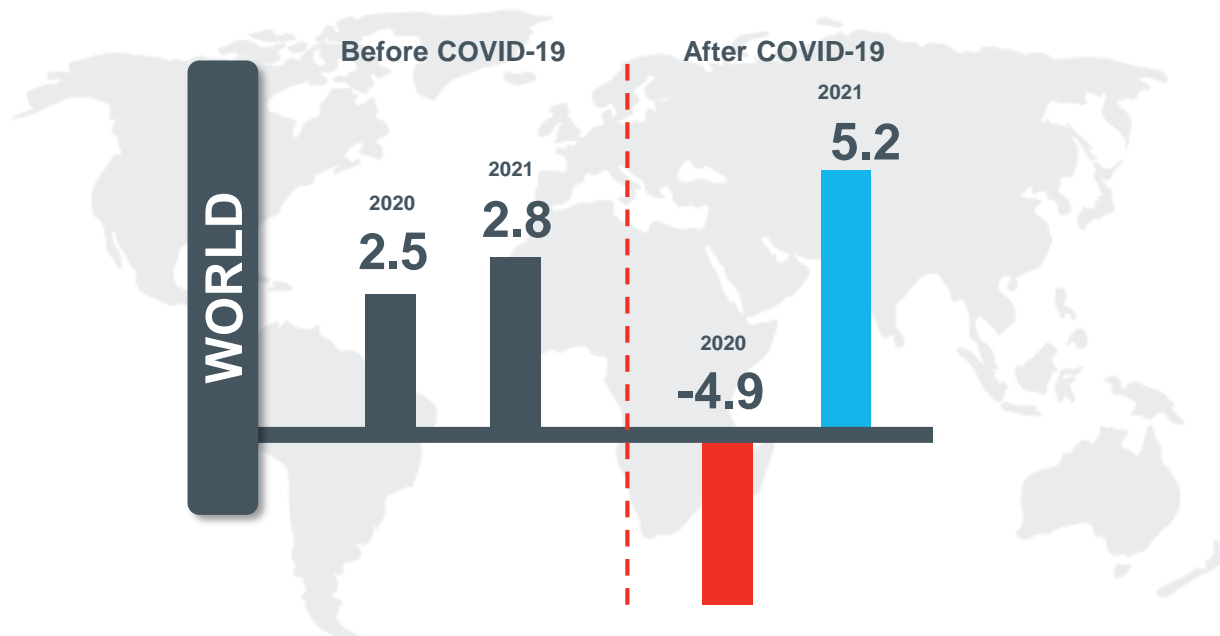
ANDAMENTO DEGLI INDICI AZIONARI DA INIZIO ANNO



Come si evince dai grafici di alcuni indici azionari qui riportati a scopo illustrativo, le principali borse mondiali hanno subito una notevole **decrescita negli ultimi quattro mesi e mezzo**, in particolare il **FTSE MIB** tra il 31 dicembre 2019 e l' 11 giugno 2020 è **sceso del 20%**, il **DAX del 10%**, il **FTSE 100 del 19%** e l'**S&P 500 del 7%**, nonostante si possa evidenziare una leggera ripresa nel corso degli ultimi due mesi

CRESCITA DEL PIL REALE (%) STIMATA PER REGIONE: MONDO

Alla data del 24 giugno 2020



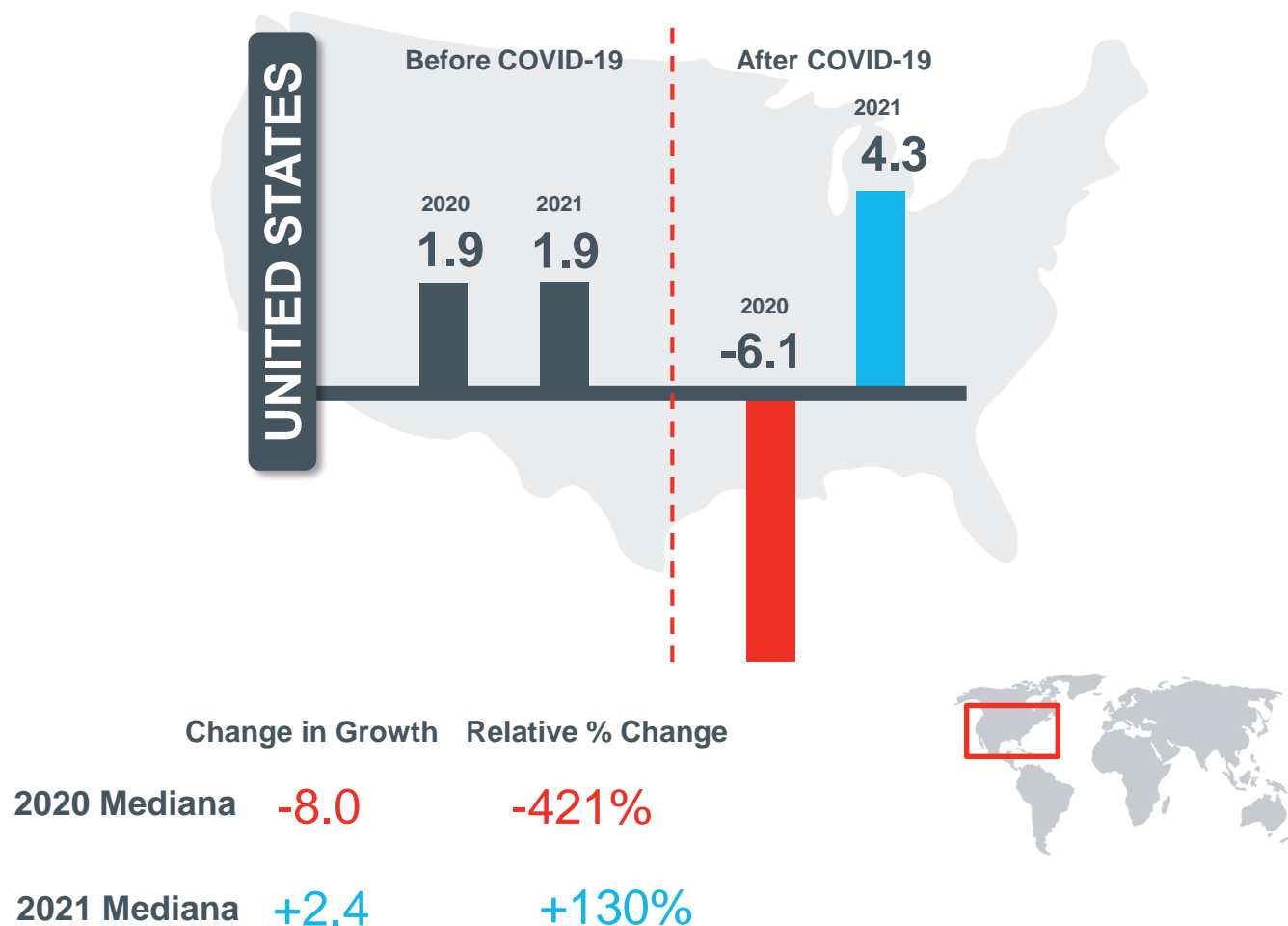
	Change in Growth	Relative % Change
2020 Mediana	-7.4	-292%
2021 Mediana	+2.5	+89%



Fonte: elaborazione Duff & Phelps basata su studi di parti terze

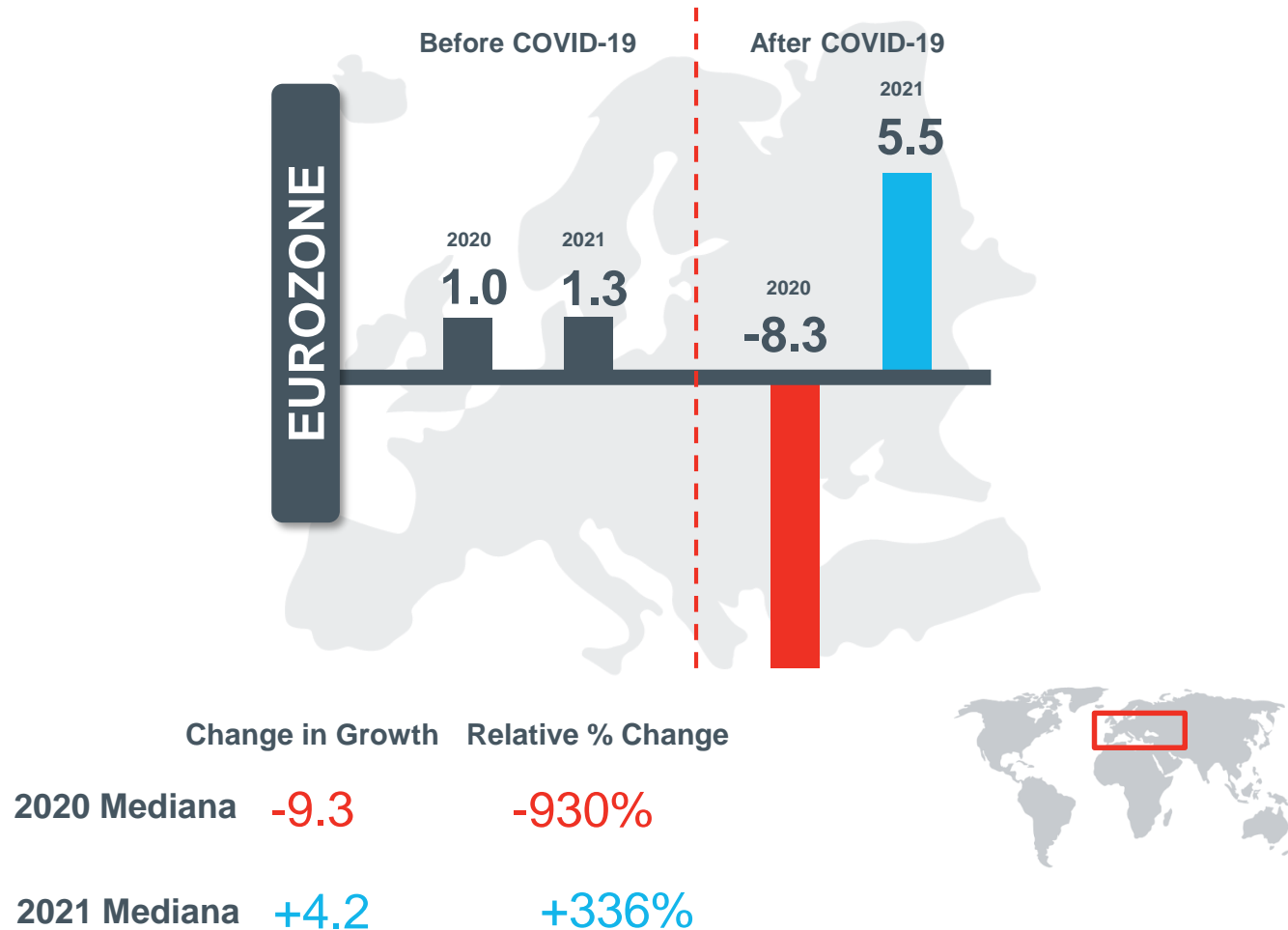
CRESCITA DEL PIL REALE (%) STIMATA PER REGIONE: U.S.

Alla data del 24 giugno 2020



CRESCITA DEL PIL REALE (%) STIMATA PER REGIONE: EUROZONA

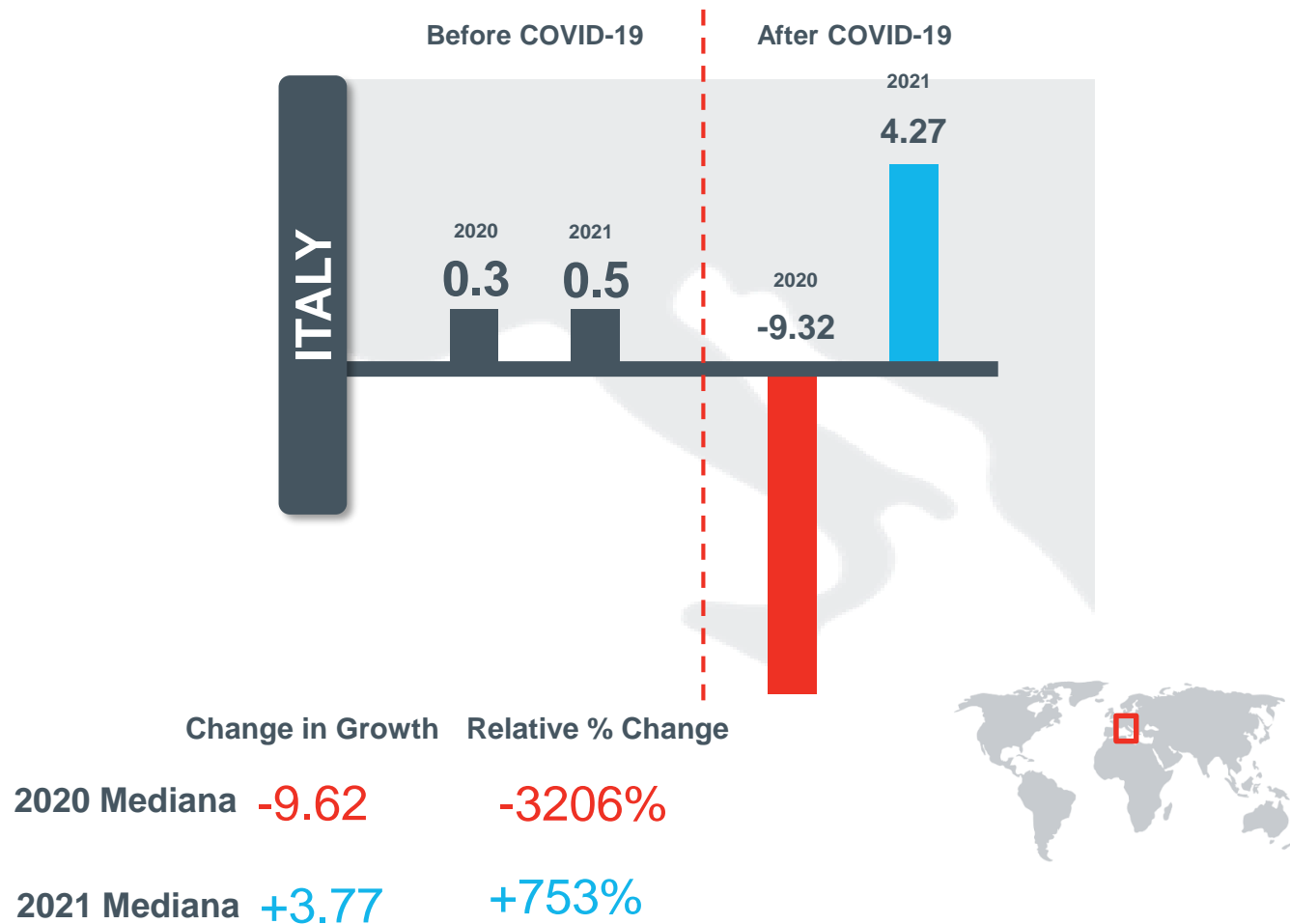
Alla data del 24 giugno 2020



Fonte: elaborazione Duff & Phelps basata su studi di parti terze

CRESCITA DEL PIL REALE (%) STIMATA PER REGIONE: ITALIA

Alla data del 12 giugno 2020



Fonte: elaborazione Duff & Phelps basata su studi di parti terze

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Impacts of COVID-19 on Portfolio Valuations

Ryan McNelley

Managing Director, Portfolio Valuation



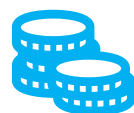
Update – 30 June 2020: What has changed?

- Sheltering in place requirements are easing or have been removed
- Unemployment rates increased dramatically around the world, some indication of stabilising
- Massive government interventions: Trillions in lending
- Central bank rates close to or below zero
- Public Markets Remain Volatile

Update – 30 June 2020: What has NOT changed?:

Fair Value Definition under IFRS 13 / ASC § 820

“... the price that would be received TO SELL an asset or paid to transfer a liability in an ORDERLY transaction between market participants at the measurement date.”



Unit of Account



Market Participant Assumptions



Orderly Transaction



Calibration & Value Accretion

⚠ Fair Value ≠ Fire Sale Price

⚠ Fair Value takes into account current market conditions

⚠ The need for fair value: Investors (LPs) need timely reported fair value based Net Asset Values (NAV) for decision making, financial reporting, exercising fiduciary duty.

What is Known and Knowable at June 30, 2020?

- Public market prices may have increased significantly since March 31, but remain volatile
- Energy prices, in particular the price of oil, has recovered significantly
- Selected industries have been significantly impacted by the response to the pandemic
- Many individuals and companies are facing a liquidity crunch—how long will their cash resources last?
- Uncertainty has increased; and therefore risk has increased; and therefore a market participants required rate of return has likely increased
- Central banks and governments are implementing monetary and fiscal stimulus
- Local governments experiencing a cash crunch (less tax revenue)
- Unemployment has increased significantly, but may be stabilizing or retracting

What is NOT Known and Knowable at June 30, 2020?

- When scientists and public health officials will develop treatments or a vaccine?
- Will we have a second wave of COVID-19 cases
- When will or will unemployment rates return to pre COVID levels
- How will consumers and businesses behave as world economies re-open?
- Is the public market recovery sustainable?
- Will we see a **V-Shaped** economic recovery? **U? W? L? VL?**

Portfolio Company Triage

- Liquidity – is bankruptcy a risk; impact on increase in debt; repayment obligations
- Working capital hole – how large and when/how will it be filled
- Have projections been updated
- Enterprise Value Considerations
 - Revenue
 - » Has customer demand changed
 - » Customer financial health
 - » Customer's customers financial health
 - Supply Chain
 - » Timing and availability of goods
 - » Cost of goods
 - » Supplier financial health
 - Operations
 - » Employee availability
 - » Employee productivity
 - » Additional costs required to keep employees at home or allow them to return to work location

Private Equity

- Double counting dilemma:
 - Q1 Problem: Portfolio Companies had not yet registered the CV19 impact in historical financials, and had not yet produced revised 2020 guidance (or beyond)
 - » Thus, we looked to liquid markets for insight into how market participants were reflecting the impact
 - » Drawback was that markets are opaque, ranges were wide, but we avoided double counting
 - Q2 Problem: Today, most Portfolio Companies have started to register CV19 impact in historical results and have provided updated 2020 guidance.
 - » This provides greater and more granular datapoints on which to rely
 - » However, introduces greater risk of double counting
 - » Can conclude on narrower ranges with greater confidence
- **Should use multiple approaches and calibration to multiple dates to triangulate on Fair Value**
- Other issues to contend with:
 - Liquidity issues – Level 2 assets dropping in illiquidity
 - Fund leverage facilities: breached covenants increasing significantly

Private Debt Valuation: Misconceptions Revealed in Market Dislocation



Common Reasons Cited for Maintaining Debt at Par Value rather than Fair Value

- ✗ “Our strategy is “hold-to-maturity” and I’m never going to sell the investment.
 - ✓ Fair Value is the price that you would receive if you were to sell the investment today – irrespective of whether you intend to hold to maturity or not – and it considers current market conditions.
- ✗ “Par value is a ‘proxy’ for Fair Value”
 - ✓ Fair Value may or may not be consistent with par value... however, par value should not be used as a default or shortcut. Proper valuation techniques (e.g., a market yield based DCF approach) should be used to robustly determine a Fair Value estimate.
- ✗ “Investors don’t want volatility”
 - ✓ It may be true that investors don’t want volatility for the sake of volatility. But they do want transparent, robust and objective information on the state of their investments – especially when economic conditions are as challenging as they are now.

Q2 Valuing Early Stage Investments

- Recent transaction price (especially prices negotiated pre March 2020) may not be indicative of fair value
- Lack of transaction data does not mean value is stable
- Have projections, milestones, exit timing been updated
- What is the impact on cash burn
- What is the cash runway
- Has there been, does their need to be, a pivot in strategy
- Is a new round of financing in the works
- Is it an up/down/or flat round with new investors
- Does a scenario analysis provide greater visibility into potential outcomes

Valuing LP Fund Interests

- Practical Expedient is generally used
 - Has LP concluded that all underlying investments are reported at fair value
 - Does a reporting lag result in a significant difference? 
- What are LPs doing:
 - Contact the General Partner directly
 - Adjust the last reported NAV to account for cash inflows and outflows
 - Apply the impact of market movements to cash adjusted NAV
 - Independently determine the value of the fund's investments
- What factors should be considered when cash adjusting NAV?
 - Add:
 - capital calls or additional commitments
 - Subtract:
 - Cash distributions
 - Returns of capital
 - Distributions of stock
- Add or subtract changes in fair value of underlying investments (if significant) 

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Q&A



For more information about our global locations and services, please visit:
www.duffandphelps.it

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